

MARCH 09, 2015

CARE ASSIGNS “CARE A1” RATING TO THE COMMERCIAL PAPER ISSUE OF PHILLIPS CARBON BLACK LIMITED

Rating

Instruments	Amount (Rs. crore)	Ratings ¹	Remarks
Commercial Paper*	200.00	‘CARE A1’ (A One)	Assigned

**The aggregate of outstanding CP and other working capital borrowings shall be within the sanctioned fund-based working capital limits with banks*

Rating Rationale

The rating assigned derive strength from the strong group support and satisfactory track record of Phillips Carbon Black Ltd. (PCBL), leadership position in the domestic carbon black industry, strategic location of the plant, steady source of revenue from the power segment and strong export presence. The rating is constrained by the risk of volatility in raw material & finished goods prices, non-availability of quality raw material in the domestic market, stiff competition from imports, foreign exchange fluctuation risks, stringent pollution norms for the industry and cyclical in the industry due to heavy dependence on the fortune of tyre industry.

The rating also factors in the improvement in profitability margins in 9MFY15 after deterioration in FY14 (refers to the period between April 01 to March 31) and deterioration in overall gearing ratio.

Effective utilization of existing capacities, achievement of desired yield improvement, volatile foreign exchange movement or sharp rupee depreciation and venturing into any debt laden capex in the near future are the key rating sensitivities.

Background

PCBL, incorporated in 1960, is engaged in the manufacturing & sale of carbon black (CB), which is mainly used in tyre & other rubber products. It is the leading producer of CB in the country and eight largest in the world, with an installed capacity of 4,72,000 MTPA. Further, PCBL also has captive power plants (CPP) at all its locations (aggregate capacity of 76 MW). The company also produces and sells excess electric power generated from the low calorific value off gas which is generated in the process of manufacturing of CB. Sale of surplus power to grid provides a steady alternative revenue stream. PCBL is managed under the stewardship of Kolkata-based RP–Sanjiv Goenka group.

Currently, its plants are located at Durgapur (West Bengal), Mundra (Gujarat), Palej (Gujarat) and Kochi (Kerala) which facilitates in optimizing transportation cost.

In FY14, PCBL reported a loss of Rs.86.60 crore (loss of Rs.20.65 crore in FY13) on total operating income of Rs.2,277.46 crore (Rs.2,284.91 crore in FY13). In 9MFY15, the company reported a PAT of Rs.12.17 crore on a total operating income of Rs.1,877.83 crore as against loss of Rs.88.63 crore on total operating income of Rs.1,683.32 crore in 9MFY14.

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****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**

¹ Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications

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In case of partnership/proprietary concerns, the rating assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

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